

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Hastings, Michigan</u>	County Barry
Audit Date June 30, 2004	Opinion Date September 28, 2004	Date Accountant Report Submitted To State: November 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 1111 Michigan Avenue	City East Lansing	State Michigan	ZIP 48823
Accountant Signature  			

# **City of Hastings, Michigan**

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## **Financial Report With Supplemental Information June 30, 2004**



# **City of Hastings, Michigan**

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## **Financial Report With Supplemental Information June 30, 2004**

# City of Hastings, Michigan

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## Independent Auditor's Report

To the City Council  
City of Hastings, Michigan

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hastings, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Hastings, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hastings, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Plante & Moran, PLLC*

September 28, 2004

# City of Hastings, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Hastings, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### Financial Highlights

The City's total net assets decreased this fiscal year. The net assets of our business-type activities increased by \$137,633 and net assets of our governmental activities, decreased by \$174,655 which includes the Internal Service Funds.

During the year, the City had revenues that were \$37,022 less than the \$7.1 million in expenses. Of the \$7.1 million expenses total, \$2.0 million related to business-type expenses and the balance of \$5.1 million related to governmental activities.

In the General Fund, revenues and incoming transfers exceeded expenditures and outgoing transfers by approximately \$89,500 for the year.

### Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds and internal service funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the Statement of Net Assets and Statement of Activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the Balance Sheet and Statement of Revenue, Expenditures, and Changes in Net Assets/Fund Balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The governmental fund statements tell how general government services, like public safety, were financed in the short term as well as what remains for future spending.

The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water, and sewer systems.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.



# City of Hastings, Michigan

## Management's Discussion and Analysis (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our non-major governmental and internal service fund.

### Government-Wide Statements

The City's government-wide statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes and state revenue sharing are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer, and business incubator are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority and Local Development Financing Authority. The City is financially accountable for these "component units" although they are legally separate entities.

### Fund Financial Statements

The City's fund financial statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants and others are established to control and manage money for particular purposes.

# City of Hastings, Michigan

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## Management's Discussion and Analysis (Continued)

The City has two major fund types that use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences at the bottom of the fund financial statements.
- **Proprietary Funds** - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.

# City of Hastings, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the City as a Whole

The following table illustrates the varying results of the governmental and business-type activities that combine to capture the City's total net assets.

	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
	(in thousands)	(in thousands)	(in thousands)
Current assets	\$ 3,602,831	\$ 2,400,274	\$ 6,003,105
Noncurrent assets	<u>4,988,294</u>	<u>11,670,518</u>	<u>16,658,812</u>
Total assets	8,591,125	14,070,792	22,661,917
Current liabilities	471,828	255,060	726,888
Long-term liabilities	<u>1,074,694</u>	<u>2,976,718</u>	<u>4,051,412</u>
Total liabilities	1,546,522	3,231,778	4,778,300
Net assets:			
Invested in capital assets - Net of related debt	4,135,130	8,136,054	12,271,184
Restricted	1,761,154	1,090,522	2,851,676
Unrestricted	<u>1,148,319</u>	<u>1,612,438</u>	<u>2,760,757</u>
Total net assets	<u><b>\$ 7,044,603</b></u>	<u><b>\$ 10,839,014</b></u>	<u><b>\$ 17,883,617</b></u>

Net assets of the City's governmental activities decreased by 2.4 percent to \$7,044,603. This decrease is due to expenses exceeding revenues.

The net assets of our business-type activities increased by 1.3 percent to \$10,839,014 during the fiscal year. This increase is due to revenues exceeding expenses.

# City of Hastings, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of net assets during the current year. The prior year data is unavailable for comparison in this report.

	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
	(in thousands)	(in thousands)	(in thousands)
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 525,823	\$ 1,963,002	\$ 2,488,825
Operating grants and contributions	232,126	938	233,064
Capital grants and contributions	230,416	-	230,416
General revenue:			
Property taxes	2,402,497	-	2,402,497
State-shared revenue	1,323,475	-	1,323,475
Unrestricted investment earnings	18,274	49,215	67,489
Transfers and miscellaneous	206,310	89,943	296,253
Total revenue	4,938,921	2,103,098	7,042,019
<b>Program Expenses</b>			
General government	167,318	-	167,318
Public safety	2,521,027	-	2,521,027
Public works	928,053	-	928,053
Community and economic development	187,813	-	187,813
Recreation and culture	1,309,365	-	1,309,365
Water and Sewer	-	1,811,781	1,811,781
Business Incubator	-	153,684	153,684
Total program expenses	5,113,576	1,965,465	7,079,041
<b>Change in Net Assets</b>	<b>\$ (174,655)</b>	<b>\$ 137,633</b>	<b>\$ (37,022)</b>

### Governmental Activities

The City's total governmental revenues increased by approximately \$476,000 despite decreases in the state-shared revenue. The increase was primarily due to an increase in taxable property values approximating the rate of inflation.

Expenses increased by only about \$431,000 during the year. Increases were led by large increases in health care costs and property insurance rates. To offset this, the City closely monitored its spending in all other areas.

# City of Hastings, Michigan

## Management's Discussion and Analysis (Continued)

### Business-Type Activities

The City's business-type activities consist of Water and Sewer Fund and Business Incubator. Operating revenues of the City's business-type activities were \$1,996,813 and operating expenses were \$1,781,170 resulting in net income of \$215,643 in its Water and Sewer and Business Incubator operations.

### The City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$2.8 million.

- State revenue sharing decreased by 10.12 percent or \$87,689 from the prior year. This continued a multi-year trend of decreasing state shared revenue which once exceeded one million dollars per year (\$778,399 was received this year.)
- Although City of Hastings, Michigan employment levels remained virtually unchanged, and wages increase were seriously limited for the year, the cost of health care benefits continued to increase dramatically.

### General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to decrease the state-shared revenue by \$47,000. City departments overall stayed below budget, resulting in total expenditures \$88,363 below budget.

# City of Hastings, Michigan

## Management's Discussion and Analysis (Continued)

### Capital Assets

At June 30, 2004, the City had invested approximately \$16 million in a broad range of capital assets, including police and fire equipment, buildings, computer equipment and software, parks and recreational facilities, roads, and water and sewer lines. (See Table below)

	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
	(in thousands)	(in thousands)	(in thousands)
Land	\$ 1,367,783	\$ 119,200	\$ 1,486,983
Construction in progress	-	23,957	23,957
Land improvement	311,840	2,837	314,677
Buildings and improvements	2,555,595	8,721,854	11,277,449
Machinery, equipment, and vehicles	3,912,604	670,222	4,582,826
Water distribution system	-	5,079,275	5,079,275
Sewage disposal system	-	1,923,331	1,923,331
Subtotal assets	8,147,822	16,540,676	24,688,498
Accumulated depreciation	3,202,692	5,314,577	8,517,269
Net capital assets	<u>\$ 4,945,130</u>	<u>\$ 11,226,099</u>	<u>\$ 16,171,229</u>

### Debt

At year-end the City had \$3.9 million in bonds and notes outstanding. This represents a \$335,000 decrease from the previous year. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

### Economic Factors and Next Year's Budget Rates

The City's budget for next year will necessarily be based on the same property tax rates as the current year. Some revenue growth, again approximately the rate of inflation can be anticipated due to growth in the taxable value of property in the City. The impact of Proposal A will continue to demand that the City continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or five percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than inflation, before considering property additions. While the City does experience some growth from new property additions the difficult national and state economies have limited and are expected to continue to curtail revenue growth from this source.

# **City of Hastings, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the City's Financial Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at the City of Hastings, 201 E. State Street, Hastings, Michigan, 49058.

# City of Hastings, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 1,565,211	\$ 924,747	\$ 2,489,958	\$ 421,414
Receivables - Net (Note 4)	435,286	283,401	718,687	-
Inventories	8,494	101,604	110,098	-
Prepaid costs and other assets	89,409	-	89,409	-
Restricted assets (Note 3 and 8)	1,504,431	1,090,522	2,594,953	-
Long term advances (Note 6)	(444,419)	444,419	-	-
Investment in joint venture (Note 12)	487,583	-	487,583	-
Capital assets - Net (Note 5)	4,945,130	11,226,099	16,171,229	-
<b>Total assets</b>	<b>8,591,125</b>	<b>14,070,792</b>	<b>22,661,917</b>	<b>421,414</b>
<b>Liabilities</b>				
Accounts payable	298,751	80,556	379,307	29,720
Accrued and other liabilities	103,077	44,504	147,581	-
Noncurrent liabilities (Note 7):				
Due within one year	70,000	130,000	200,000	-
Due in more than one year	1,074,694	2,976,718	4,051,412	-
<b>Total liabilities</b>	<b>1,546,522</b>	<b>3,231,778</b>	<b>4,778,300</b>	<b>29,720</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	4,135,130	8,136,054	12,271,184	-
Restricted:				
Revenue bond reserves (Note 8)	-	1,090,522	1,090,522	-
Streets and highways	256,723	-	256,723	-
Other purposes (Note 8)	1,504,431	-	1,504,431	-
Unrestricted	1,148,319	1,612,438	2,760,757	391,694
<b>Total net assets</b>	<b>\$ 7,044,603</b>	<b>\$ 10,839,014</b>	<b>\$ 17,883,617</b>	<b>\$ 391,694</b>



# City of Hastings, Michigan

			Program Revenues		
	Expenses	Indirect Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs					
Primary government:					
Governmental activities:					
General government	\$ 1,212,809	\$ (1,045,491)	\$ 167,318	\$ -	\$ -
Public safety	1,862,368	658,659	316,302	-	-
Public works	781,684	146,369	-	-	-
Community and economic development	30,989	156,824	-	-	-
Recreation and culture	1,225,726	83,639	42,203	232,126	230,416
Total governmental activities	5,113,576	-	525,823	232,126	230,416
Business-type activities:					
Water and sewer	1,811,781	-	1,884,179	-	-
Business incubator	153,684	-	78,823	938	-
Total business-type activities	1,965,465	-	1,963,002	938	-
Total primary government	<u>\$ 7,079,041</u>	<u>\$ -</u>	<u>\$ 2,488,825</u>	<u>\$ 233,064</u>	<u>\$ 230,416</u>
Component units:					
Downtown Development Authority	\$ 359,847	\$ -	\$ -	\$ 6,702	\$ -
Local Development Financing Authority	-	-	-	-	-
Total component units	<u>\$ 359,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,702</u>	<u>\$ -</u>
General revenues:					
Property taxes					
State-shared revenues					
Unrestricted investment earnings					
Miscellaneous					
Transfers					
Total general revenues and transfers					
Change in Net Assets					
Net Assets - Beginning of year (Note 1)					
Net Assets - End of year					

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ -	\$ -	\$ -	\$ -
(2,204,725)	-	(2,204,725)	-
(928,053)	-	(928,053)	-
(187,813)	-	(187,813)	-
(804,620)	-	(804,620)	-
(4,125,211)	-	(4,125,211)	-
-	72,398	72,398	-
-	(73,923)	(73,923)	-
-	(1,525)	(1,525)	-
(4,125,211)	(1,525)	(4,126,736)	-
-	-	-	(353,145)
-	-	-	-
-	-	-	(353,145)
2,402,497	-	2,402,497	393,890
1,323,475	-	1,323,475	-
18,274	49,215	67,489	6,346
263,380	32,873	296,253	1,000
(57,070)	57,070	-	-
3,950,556	139,158	4,089,714	401,236
(174,655)	137,633	(37,022)	48,091
7,219,258	10,701,381	17,920,639	343,603
<b>\$ 7,044,603</b>	<b>\$ 10,839,014</b>	<b>\$ 17,883,617</b>	<b>\$ 391,694</b>

# City of Hastings, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	General Fund	Library Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 427,403	\$ 213,099	\$ 469,007	\$ 1,109,509
Receivables - Net	312,207	2,190	118,496	432,893
Restricted assets (Note 3 and 8)	-	1,185,426	319,005	1,504,431
Due from other funds (Note 6)	86,961	107,573	-	194,534
Prepaid costs and other assets	24,192	-	-	24,192
Inventories	8,494	-	-	8,494
Total assets	<u>\$ 859,257</u>	<u>\$ 1,508,288</u>	<u>\$ 906,508</u>	<u>\$ 3,274,053</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 48,132	\$ 9,351	\$ 190,484	\$ 247,967
Accrued and other liabilities	88,744	-	-	88,744
Due to other funds	-	43,251	107,573	150,824
Deferred revenue (Note 4)	-	-	28,405	28,405
Total liabilities	136,876	52,602	326,462	515,940
<b>Fund Balances</b>				
Reserved for:				
Capital campaign and memorial (Note 8)	-	1,185,426	-	1,185,426
Charitable trust (Note 8)	-	-	319,005	319,005
Inventories and prepaid costs	32,686	-	-	32,686
Unreserved, reported in:				
General Fund	689,695	-	-	689,695
Special Revenue Funds	-	270,260	261,041	531,301
Total fund balances	<u>722,381</u>	<u>1,455,686</u>	<u>580,046</u>	<u>2,758,113</u>
Total liabilities and fund balances	<u>\$ 859,257</u>	<u>\$ 1,508,288</u>	<u>\$ 906,508</u>	<u>\$ 3,274,053</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	2,365,451
Investment in joint venture is not a financial resource and is not reported in the funds	487,583
Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures	28,405
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(194,232)
Internal Service Funds are included as part of governmental activities	1,599,283
Net assets of governmental activities	<u>\$ 7,044,603</u>

# City of Hastings, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General	Library	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Property taxes	\$ 2,402,497	\$ -	\$ -	\$ 2,402,497
State sources	783,639	11,354	533,722	1,328,715
Local sources	181,742	232,126	-	413,868
Special assessments	-	-	17,765	17,765
Charges for services	401,770	4,225	-	405,995
Fines and forfeitures	19,270	37,978	-	57,248
Interest and rentals	71,933	23,824	-	95,757
Other	57,609	240,115	43,373	341,097
Total revenue	3,918,460	549,622	594,860	5,062,942
<b>Expenditures</b>				
Current:				
General government	231,480	-	-	231,480
Public safety	2,339,921	-	-	2,339,921
Parks and recreation	254,764	-	-	254,764
Parking and enforcement	23,247	-	-	23,247
Economic development	46,424	-	-	46,424
Construction	-	-	43,618	43,618
Maintenance	-	-	782,061	782,061
Library	-	552,352	-	552,352
Police training	-	-	7,878	7,878
Distribution to library	-	-	19,344	19,344
Community promotion and other	430,056	-	-	430,056
Capital outlay	-	231,952	-	231,952
Total expenditures	3,325,892	784,304	852,901	4,963,097
<b>Excess of Revenue Over (Under) Expenditures</b>	592,568	(234,682)	(258,041)	99,845
<b>Other Financing Sources (Uses)</b>				
Transfers in	15,359	257,658	188,329	461,346
Transfers out	(518,416)	-	-	(518,416)
Total other financing sources (uses)	(503,057)	257,658	188,329	(57,070)
<b>Net Change in Fund Balances</b>	89,511	22,976	(69,712)	42,775
<b>Fund Balances - Beginning of year</b>	632,870	1,432,710	649,758	2,715,338
<b>Fund Balances - End of year</b>	<u>\$ 722,381</u>	<u>\$ 1,455,686</u>	<u>\$ 580,046</u>	<u>\$ 2,758,113</u>

# City of Hastings, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

<b>Net Change in Fund Balances - Total governmental funds</b>	<b>\$ 42,775</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	232,831
Depreciation on general fixed assets is recorded in the statement of activities; it is not reported at the fund level	(233,102)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(17,765)
Loss on investment in joint venture is not reported as expenditures in the governmental funds	(79,666)
Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(88,357)
Internal Service Funds are also included as governmental activities	<u>(31,371)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ (174,655)</u></b>

# City of Hastings, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Business-Type Activities			Governmental
	Major Fund	Nonmajor Fund		Activities
	Water Supply and Sewage Disposal System Fund	Business Incubator	Total Enterprise Funds	Internal Service Funds
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 869,704	\$ 55,043	\$ 924,747	\$ 455,702
Receivables - Net (Note 4)	265,106	18,295	283,401	2,393
Inventories	101,604	-	101,604	-
Prepaid costs and other assets	-	-	-	65,217
Total current assets	1,236,414	73,338	1,309,752	523,312
Noncurrent assets:				
Restricted assets (Note 3 and 8)	1,090,522	-	1,090,522	-
Advances due from other funds (Note 6)	444,419	-	444,419	-
Capital assets (Note 5)	10,648,208	577,891	11,226,099	2,579,679
Total noncurrent assets	12,183,149	577,891	12,761,040	2,579,679
Total assets	13,419,563	651,229	14,070,792	3,102,991
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	73,373	7,183	80,556	50,784
Accrued and other liabilities	31,543	12,961	44,504	14,333
Due to other funds	-	-	-	43,710
Current portion of long-term debt (Note 7)	130,000	-	130,000	70,000
Total current liabilities	234,916	20,144	255,060	178,827
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	15,588	1,085	16,673	140,462
Long-term advances from other funds (Note 6)	-	-	-	444,419
Long-term debt - Net of current portion (Note 7)	2,960,045	-	2,960,045	740,000
Total noncurrent liabilities	2,975,633	1,085	2,976,718	1,324,881
Total liabilities	3,210,549	21,229	3,231,778	1,503,708
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	7,558,163	577,891	8,136,054	1,325,260
Restricted - Revenue bond reserves	1,090,522	-	1,090,522	-
Unrestricted	1,560,329	52,109	1,612,438	274,023
Total net assets	<u>\$ 10,209,014</u>	<u>\$ 630,000</u>	<u>\$ 10,839,014</u>	<u>\$ 1,599,283</u>

# City of Hastings, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Business-Type Activities			Governmental
	Major Fund	Nonmajor Fund		Activities
	Water and Sewer	Business Incubator	Total Enterprise Funds	Internal Service Funds
<b>Operating Revenue</b>				
Charges for services	\$ 1,908,582	\$ 13,372	\$ 1,921,954	\$ 1,755,459
Rental income	-	65,451	65,451	-
Other	6,976	2,432	9,408	-
Total operating revenue	1,915,558	81,255	1,996,813	1,755,459
<b>Operating Expenses</b>				
Personnel services	385,710	28,781	414,491	966,456
Contractual and professional services	114,049	2,455	116,504	143,210
Supplies and chemicals	104,778	2,627	107,405	115,694
Heat, light, and power	132,574	51,423	183,997	53,862
Insurance	23,804	2,373	26,177	54,991
Equipment rental	74,849	-	74,849	17,990
Maintenance	259,954	18,128	278,082	81,240
Miscellaneous	14,498	26,074	40,572	17,521
Administrative services	174,520	-	174,520	29,580
Depreciation	342,750	21,823	364,573	254,363
Total operating expenses	1,627,486	153,684	1,781,170	1,734,907
<b>Operating Income (Loss)</b>	288,072	(72,429)	215,643	20,552
<b>Nonoperating Revenue (Expenses)</b>				
Investment income	49,215	-	49,215	5,526
Interest expense	(184,295)	-	(184,295)	(57,449)
Total nonoperating revenue (expenses)	(135,080)	-	(135,080)	(51,923)
<b>Income (Loss) - Before transfers</b>	152,992	(72,429)	80,563	(31,371)
<b>Transfers From (to) Other Funds</b>	(15,359)	72,429	57,070	-
<b>Change in Net Assets</b>	137,633	-	137,633	(31,371)
<b>Net Assets - Beginning of year</b>	10,071,381	630,000	10,701,381	1,630,654
<b>Net Assets - End of year</b>	<u>\$ 10,209,014</u>	<u>\$ 630,000</u>	<u>\$ 10,839,014</u>	<u>\$ 1,599,283</u>

# City of Hastings, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Business-Type Activities			Governmental
	Major Fund	Nonmajor Fund		Activities
			Total	Internal
	Water and Sewer	Business Incubator	Enterprise Funds	Service Funds
<b>Cash Flows From Operating Activities</b>				
Receipts from customers	\$ 1,934,707	\$ 77,135	\$ 2,011,842	\$ 1,755,327
Payments to suppliers	(1,023,857)	(104,541)	(1,128,398)	(460,419)
Payments to employees	(401,756)	(31,114)	(432,870)	(908,227)
Internal activity - Payments to other funds	-	24,098	24,098	(106,544)
Other receipts (payments)	6,976	2,432	9,408	-
Net cash provided by (used in) operating activities	516,070	(31,990)	484,080	280,137
<b>Cash Flows From Noncapital Financing Activities</b>				
Operating transfers from (to) other funds	(15,359)	72,429	57,070	-
Loan repayments from other funds	68,279	-	68,279	(68,279)
Net cash provided by (used in) noncapital financing activities	52,920	72,429	125,349	(68,279)
<b>Cash Flows From Capital and Related Financing Activities</b>				
Purchase of capital assets	(378,746)	-	(378,746)	(22,678)
Principal and interest paid on capital debt	(454,295)	-	(454,295)	(122,449)
Net cash used in capital and related financing activities	(833,041)	-	(833,041)	(145,127)
<b>Cash Flows From Investing Activities</b>				
Interest received on investments	49,215	-	49,215	5,526
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(214,836)	40,439	(174,397)	72,257
<b>Cash and Cash Equivalents - Beginning of year</b>	2,175,062	14,604	2,189,666	383,445
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,960,226</u>	<u>\$ 55,043</u>	<u>\$ 2,015,269</u>	<u>\$ 455,702</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 869,704	\$ 55,043	\$ 924,747	\$ 455,702
Restricted investments (Note 3)	1,090,522	-	1,090,522	-
<b>Total cash and cash equivalents</b>	<u>\$ 1,960,226</u>	<u>\$ 55,043</u>	<u>\$ 2,015,269</u>	<u>\$ 455,702</u>



# City of Hastings, Michigan

## Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2004

	Business-Type Activities		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Major Fund	Nonmajor Fund		
	Water and Sewer	Business Incubator		
<b>Reconciliation of Operating Income to Net Cash From Operating Activities</b>				
Operating income (loss)	\$ 288,072	\$ (72,429)	\$ 215,643	\$ 20,552
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	342,750	21,823	364,573	254,363
Changes in assets and liabilities:				
Receivables	26,125	(1,688)	24,437	(132)
Due from other funds	-	24,098	24,098	-
Prepaid costs	-	-	-	5,450
Inventories	24,134	-	24,134	-
Accounts payable	(148,965)	(1,461)	(150,426)	649
Due to other funds	-	-	-	(58,974)
Accrued and other liabilities	4,302	4,764	9,066	2,661
Provision for compensated absences	(20,348)	(7,097)	(27,445)	55,568
Net cash provided by (used in) operating activities	<u>\$ 516,070</u>	<u>\$ (31,990)</u>	<u>\$ 484,080</u>	<u>\$ 280,137</u>

**Noncash Investing, Capital, and Financing Activities** - There were no noncash investing, capital, and financing activities during the year ended June 30, 2004.

# City of Hastings, Michigan

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## **Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2004**

Agency Fund

**Assets** - Cash and cash equivalents

**\$ 2,976**

**Liabilities** - Accounts payable

**\$ 2,976**

# City of Hastings, Michigan

## Component Units Statement of Net Assets June 30, 2004

	Downtown Development Authority	Local Development Financing Authority	Totals
<b>Assets</b>			
Cash and investments (Note 3)	\$ 372,648	\$ 48,766	\$ 421,414
<b>Liabilities</b>			
Accounts payable	29,720	-	29,720
<b>Net Assets</b>			
Unrestricted	<u>\$ 342,928</u>	<u>\$ 48,766</u>	<u>\$ 391,694</u>

# City of Hastings, Michigan

## Component Units Statement of Activities Year Ended June 30, 2004

			Net (Expense) Revenue and Changes in Net Assets		
			Local		
	Expenses	Operating Grants/ Contributions	Downtown Development Authority	Development Financing Authority	Total
Downtown Development Authority -					
Public works	\$ 359,847	\$ 6,702	\$ (353,145)	\$ -	\$ (353,145)
<b>General Revenues</b>					
Property taxes			373,766	20,124	393,890
Unrestricted investment earnings			5,764	582	6,346
Miscellaneous			1,000	-	1,000
Total general revenues			380,530	20,706	401,236
<b>Change in Net Assets</b>			27,385	20,706	48,091
<b>Net Assets - Beginning of year</b>			315,543	28,060	343,603
<b>Net Assets - End of year</b>			\$ 342,928	\$ 48,766	\$ 391,694

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Hastings, Michigan (the City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

The City of Hastings, Michigan is governed by an elected nine-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Discretely Presented Component Units** - The following component units are reported within the component units column in the Statement of Net Assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the Component Units Statement of Net Assets.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

The Local Development Financing Authority (LDFA) and Brownfield Redevelopment Authority were created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment Zone. There is no activity in the current year for Brownfield. The governing body, which consists of nine individuals, is selected by the City Council. In addition, their budgets are subject to approval by the City Council.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes that are both measurable and available for use to finance operations are recorded as revenue when earned. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are billed on July 1 of the following year.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year-end. Interest income on special assessments receivable is not accrued until its due date.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenues from general property taxes, state-shared revenue and other state sources.

**Library Fund** - The Library Fund accounts for the activities of the Library and the Library Capital Campaign.

The City reports the following major proprietary funds:

**Water Supply and Sewage Disposal System Fund** - The Water Supply and Sewage Disposal System Fund accounts for the activities of the water distribution system and sewage collection system.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989, for its enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.



### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, and Component Units is generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other fund." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

**Restricted Assets** - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Water distribution system	20 years
Sewage disposal system	20 years
Buildings and building improvements	30 years
Land improvements	10 to 20 years
Machinery, equipment and vehicles	2 to 12 years

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, sidewalks, etc. The retroactive reporting of infrastructure was encouraged, but not required for the City based on their level of revenue. The City has elected to not implement the retroactive reporting of infrastructure provisions of GASB Statement No. 34.

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements.

**Long-Term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

**Accounting Change** - In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Hastings has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement the general provisions of the statement, however, elected to not implement the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.

### Note I - Summary of Significant Accounting Policies (Continued)

- Government-wide financial statements (statement of net assets and statement of activities) are prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets not previously accounted for by the City as well as assets previously reported in the General Fixed Assets Account Group.
- The governmental activities column includes compensated absence long-term obligations previously reported in the General Long-term Debt Account Group.

**Determination of Beginning Net Assets** - Prior to implementation of GASB Statement No. 34, the activities of the City were only reported using the modified accrual basis of accounting for its governmental activities. The City now uses the full accrual basis of accounting for these governmental activities in the government-wide financial statements. In connection with the implementation of GASB Statement No. 34, the following adjustments have been made to reflect the cumulative effect of this accounting change:

<b>Fund Balance</b> - Beginning of year in the general, special revenue, and reclassified permanent funds	\$ 2,715,338
Capitalization of capital assets, net of accumulated depreciation	2,365,722
Inclusion of assets and liabilities of internal service fund	1,630,654
Investment of joint venture	567,249
Recognition of revenue previously earned	46,170
Recognition of expenses for compensated absences	<u>(105,875)</u>
<b>Net Assets</b> - Beginning of year, as adjusted	<u>\$ 7,219,258</u>

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The legal level of budgetary control adopted by the governing body is the activity level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund and Library Fund is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the Major Streets Fund and Local Streets Fund is presented as other supplemental information. A comparison of actual results of operations to the Police Training and Drug Awareness Fund budget as adopted by the City Council is available at the clerk's office for inspection.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Parks and recreation	\$ 192,339	\$ 254,764

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated four banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment as allowed under State statutory authority as listed above.

The City of Hastings, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Cash and investments	\$ 1,565,211	\$ 924,747	\$ 2,489,958	\$ 421,414
Restricted assets	1,504,431	1,090,522	2,594,953	-
Total	<u>\$ 3,069,642</u>	<u>\$ 2,015,269</u>	<u>\$ 5,084,911</u>	<u>\$ 421,414</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 4,679,336	\$ 421,414
Investments in securities, mutual funds, and similar vehicles	404,004	-
Petty cash or cash on hand	<u>1,571</u>	<u>-</u>
Total	<u>\$ 5,084,911</u>	<u>\$ 421,414</u>

### Note 3 - Deposits and Investments (Continued)

#### Deposits

The bank balance of the City's deposits is \$4,793,498, of which \$600,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluated each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$420,486, of which \$103,394 was covered by federal depository insurance.

#### Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name. At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ -	\$ 293,391	\$ -	\$ 293,391
Corporate stock	-	96,983	-	96,983
Subtotal	<u>\$ -</u>	<u>\$ 390,374</u>	<u>\$ -</u>	390,374
Investments not subject to categorization:				
Mutual funds				<u>13,630</u>
Total primary government				<u>\$ 404,004</u>

# City of Hastings, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

Mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC.

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor and Internal Service in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities			Business-Type Activities		Total
	General	Library	Other Nonmajor Funds	Water Supply and Sewage Disposal System	Other Nonmajor Funds	
Receivables:						
Taxes	\$ 42,754	\$ -	\$ -	\$ -	\$ -	\$ 42,754
Accounts	2,976	-	-	235,459	17,306	255,741
Intergovernmental	252,582	1,580	92,484	-	-	346,646
Interest and other	13,895	610	28,405	29,647	989	73,546
Net receivables	<u>\$ 312,207</u>	<u>\$ 2,190</u>	<u>\$ 120,889</u>	<u>\$ 265,106</u>	<u>\$ 18,295</u>	<u>\$ 718,687</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of special assessments that are unavailable in the amount of \$28,405.

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

<b>Governmental Activities</b>	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 1,185,335	\$ 182,448	\$ -	\$ 1,367,783
Capital assets being depreciated:				
Land improvements	264,477	47,363	-	311,840
Buildings and building improvements	2,537,171	18,424	-	2,555,595
Machinery, equipment and vehicles	3,906,957	50,340	44,693	3,912,604
Subtotal	6,708,605	116,127	44,693	6,780,039
Accumulated depreciation:				
Depreciable capital assets	2,759,920	487,465	44,693	3,202,692
Net capital assets being depreciated	3,948,685	(371,338)	-	3,577,347
Net capital assets	<u>\$ 5,134,020</u>	<u>\$ (188,890)</u>	<u>\$ -</u>	<u>\$ 4,945,130</u>

<b>Business-Type Activities</b>	Balance July 1, 2003	Reclassifications	Additions	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 119,200	\$ -	\$ -	\$ 119,200
Construction in progress	167,485	(143,528)	-	23,957
Subtotal	286,685	(143,528)	-	143,157
Capital assets being depreciated:				
Water distribution system	4,918,215	-	161,060	5,079,275
Sewage disposal system	1,855,834	-	67,497	1,923,331
Land improvements	2,837	-	-	2,837
Buildings	8,432,328	143,528	145,998	8,721,854
Machinery and equipment	666,031	-	4,191	670,222
Subtotal	15,875,245	143,528	378,746	16,397,519
Accumulated depreciation:				
Depreciable capital assets	4,950,004	-	364,573	5,314,577
Net capital assets being depreciated	10,925,241	143,528	14,173	11,082,942
Net capital assets	<u>\$ 11,211,926</u>	<u>\$ -</u>	<u>\$ 14,173</u>	<u>\$ 11,226,099</u>



# City of Hastings, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 16,849
Public safety	46,318
Economic development	10,194
Recreation and culture	159,741
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	<u>254,363</u>

Total governmental activities \$ 487,465

Business-type activities:

Business Incubator	\$ 21,823
Water Supply and Sewage Disposal System Fund	<u>342,750</u>

Total business-type activities \$ 364,573

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/From Other Funds</b>		
General Fund	Library Fund	\$ 43,251
	Internal Service Funds	<u>43,710</u>
Total General Fund		86,961
Library Fund	Other nonmajor governmental funds	<u>107,573</u>
Total		<u>\$ 194,534</u>

**Advances From/to Other Funds**

Water Supply and Sewage Disposal System Fund	Internal Service Funds	<u>\$ 444,419</u>
--	------------------------	-------------------

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The advance from the Water Supply and Sewage Disposal System Fund to the Internal Service Funds was for the purchase of a fire truck in the amount of \$426,855, and a copier and related software in the amount of \$17,564. Interest is charged on the outstanding balance at 6 percent and 3 percent, respectively.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Other nonmajor governmental funds	\$ 188,329
General Fund	Library Fund	257,658
General Fund	Internal Services Fund	72,429
Water Supply and Sewage Disposal System Fund	General Fund	<u>15,359</u>
Total		<u><u>\$ 533,775</u></u>

The transfers between funds represent the use of unrestricted resources to finance the various programs, in accordance with budgetary authorizations.

### Note 7 - Long-Term Debt

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# City of Hastings, Michigan

## Notes to Financial Statements June 30, 2004

### Note 7 - Long-Term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligations:					
Installment Purchase Agreement					
Amounts of issue: \$1,155,000					
Maturing through: October 1, 2012	\$ 875,000	\$ -	\$ (65,000)	\$ 810,000	\$ 70,000
Other long-term obligations:					
Compensated absences	190,768	143,926	-	334,694	-
Total governmental activities	<u>\$ 1,065,768</u>	<u>\$ 143,926</u>	<u>\$ (65,000)</u>	<u>\$ 1,144,694</u>	<u>\$ 70,000</u>
<b>Business-Type Activities</b>					
Revenue bonds:					
1992 Revenue Bonds					
Amounts of issue: \$1,635,000					
Maturing through: July 1, 2007	\$ 630,190	\$ -	\$ (145,000)	\$ 485,190	\$ -
1997 Revenue Bonds					
Amounts of issue: \$3,300,000					
Maturing through: May 1, 2017	2,729,855	-	(125,000)	2,604,855	130,000
Other long-term obligations:					
Compensated absences	44,119	-	(27,446)	16,673	-
Total business-type activities	<u>\$ 3,404,164</u>	<u>\$ -</u>	<u>\$ (297,446)</u>	<u>\$ 3,106,718</u>	<u>\$ 130,000</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 70,000	\$ 38,363	\$ 108,363
2006	75,000	34,774	109,774
2007	80,000	30,938	110,938
2008	85,000	26,854	111,854
2009	100,000	12,375	112,375
2010-2013	400,000	49,500	449,500
Total	<u>\$ 810,000</u>	<u>\$ 192,804</u>	<u>\$ 1,002,804</u>

# City of Hastings, Michigan

## Notes to Financial Statements June 30, 2004

### Note 7 - Long-Term Debt (Continued)

	Business-Type Activities		
	Principal	Interest	Total
2005	\$ 130,000	\$ 151,493	\$ 281,493
2006	295,000	154,572	449,572
2007	315,000	136,010	451,010
2008	340,000	117,630	457,630
2009	175,000	103,780	278,780
2010-2014	1,060,000	375,676	1,435,676
2015-2017	775,045	84,916	859,961
Total	<u>\$ 3,090,045</u>	<u>\$ 1,124,077</u>	<u>\$ 4,214,122</u>

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-Type Activities
Capital campaign	\$ 1,147,960	\$ -
Library memorial fund	37,466	-
Charitable trust	319,005	-
Revenue bond restrictions:		
Operation and maintenance fund	-	454,210
Bond reserve fund	-	473,500
Replacement fund	-	125,000
Bond and interest redemption	-	37,812
Total restricted assets	<u>\$ 1,504,431</u>	<u>\$ 1,090,522</u>

### **Note 9 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League (risk pool) for claims relating to property loss, torts, errors and omissions, and workers compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Defined Benefit Pension Plan**

**Plan Description** - The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way., Lansing, MI 48917.

**Funding policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires no contributions from the employees.

**Annual Pension Cost** - For year ended June 30, 2004, the City's annual pension cost of \$318,795 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) additional projected salary increases ranging from zero to 4.16 percent per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

### Note 10 - Defined Benefit Pension Plan (Continued)

#### Three-Year Trend Information

Fiscal Year Ended June 30	2002	2003	2004
Annual pension costs (APC)	\$ 276,995	\$ 298,840	\$ 318,795
Percentage of APC contributed	100	100	100
Net pension obligation	-	-	-
Actuarial Valuation as of December 31	2001	2002	2003
Actuarial value of assets	\$ 7,598,075	\$ 7,622,511	\$ 7,978,180
Actuarial accrued liability (entry age)	9,446,097	10,323,937	10,833,739
Unfunded AAL	1,848,022	2,701,426	2,855,559
Funded ratio	80	74	74
Covered payroll	2,062,016	2,313,026	2,297,798
UAAL as a percentage of covered payroll	90	117	124

### Note 11 - Other Post Employment Benefits

The City provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 34 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant for retirees before 1992. After 1992, the retirees are required to contribute 10 percent of the premium. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$270,000.

Upcoming reporting change - The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2008.

### **Note 12 - Investment in Joint Venture**

The Airport Commission was formed by an agreement in 1977 between the Hastings City Council and the Barry County Board of Commissioners. The Commission consists of five members, two residents of Barry County appointed by the Barry County Board of Commissioners, two residents of the City of Hastings appointed by the Hastings City Council, and one member appointed by the other four. It is responsible for acquisition of property, constructing, operating, and maintaining airport facilities. Ownership of property is vested in the City. It may exercise on behalf of the political subdivision by which it was created, all powers of each such political subdivision. It may not issue debt without approvals from the City and County. It is designated as the agent for any federal or state airport aid.

The agreement requires that each governmental unit provide 50 percent of the net budget appropriation requirements and that financial record keeping be maintained by the County. During the current year, the City contributed approximately \$21,000 for its operations. This is presented as a component unit in the County's financial statements. The financial statements may be obtained at the Barry County Office, 220 West State, Hastings, MI 49058. The City is unaware of any circumstances that would cause additional benefit or burden to the participating governments in the near future.

## **Required Supplemental Information**

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# City of Hastings, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 602,462	\$ 602,462	\$ 632,870	\$ 30,408
<b>Resources (Inflows)</b>				
Property taxes	2,402,231	2,402,231	2,402,497	266
State sources	845,577	798,577	783,639	(14,938)
Local sources	190,041	190,041	181,742	(8,299)
Fines and forfeitures	20,000	20,000	19,270	(730)
Charges for services	393,891	393,891	401,770	7,879
Interest income	28,000	28,000	14,593	(13,407)
Rental income	55,000	55,000	57,340	2,340
Other	17,500	17,500	57,609	40,109
Transfer from other funds	15,359	15,359	15,359	-
Amounts available for appropriation	3,967,599	3,920,599	3,933,819	13,220
<b>Charges to Appropriations (Outflows)</b>				
General government:				
City council	56,806	56,806	61,914	(5,108)
Clerk elections	10,160	10,160	9,080	1,080
City assessor	170,107	170,107	160,486	9,621
Public safety:				
Police	1,719,222	1,719,222	1,640,519	78,703
Fire	744,158	734,113	699,402	34,711
Parks and recreation	182,689	192,339	254,764	(62,425)
Parking and enforcement	43,635	43,635	23,247	20,388
Economic development	68,303	68,303	46,424	21,879
Community promotion and other	419,086	426,086	430,056	(3,970)
Transfers to other funds	590,598	511,900	518,416	(6,516)
Total charges to appropriations	4,004,764	3,932,671	3,844,308	88,363
<b>Fund Balance - End of year</b>	<b>\$ 565,297</b>	<b>\$ 590,390</b>	<b>\$ 722,381</b>	<b>\$ 131,991</b>

# City of Hastings, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Library Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 1,584,051	\$ 1,584,051	\$ 1,432,710	\$ (151,341)
<b>Resources (Inflows)</b>				
State sources	9,200	9,200	11,354	2,154
Local sources	269,000	269,000	232,126	(36,874)
Charges for services	2,830	2,830	4,225	1,395
Interest income	3,500	3,500	3,681	181
Interest income - capital campaign	36,000	36,000	20,143	(15,857)
Fines and forfeitures	37,900	37,900	37,978	78
Other	256,350	343,850	240,115	(103,735)
Transfers	257,658	257,658	257,658	-
Amounts available for appropriation	872,438	959,938	807,280	(152,658)
<b>Charges to Appropriations (Outflows)</b>				
Library	591,400	591,400	552,352	39,048
Capital outlay	100,800	300,800	231,952	68,848
Total charges to appropriations	692,200	892,200	784,304	107,896
<b>Fund Balance - End of year</b>	<b><u>\$ 1,764,289</u></b>	<b><u>\$ 1,651,789</u></b>	<b><u>\$ 1,455,686</u></b>	<b><u>\$ (196,103)</u></b>

## **Other Supplemental Information**

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# City of Hastings, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ -	\$ -	\$ 280,055	\$ 280,055
<b>Resources (Inflows)</b>				
State sources	350,000	370,000	376,524	6,524
Other	-	-	22	22
Transfer from other funds	<u>15,790</u>	<u>86,582</u>	<u>-</u>	<u>(86,582)</u>
Amounts available for appropriation	365,790	456,582	376,546	(80,036)
<b>Charges to Appropriations (Outflows)</b>				
Construction	-	50,688	43,618	7,070
Maintenance	<u>365,790</u>	<u>405,894</u>	<u>374,026</u>	<u>31,868</u>
Total charges to appropriations	<u>365,790</u>	<u>456,582</u>	<u>417,644</u>	<u>38,938</u>
<b>Fund Balance - End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 238,957</u>	<u>\$ 238,957</u>

# City of Hastings, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ -	\$ -	\$ 47,557	\$ 47,557
<b>Resources (Inflows)</b>				
State sources	259,091	151,000	153,989	2,989
Special assessments	9,019	9,019	17,765	8,746
Other	-	23,000	22,711	(289)
Transfer from other funds	<u>259,955</u>	<u>187,959</u>	<u>183,779</u>	<u>(4,180)</u>
Amounts available for appropriation	528,065	370,978	378,244	7,266
<b>Charges to Appropriations (Outflows)</b>				
Construction	127,616	-	-	-
Maintenance	<u>400,449</u>	<u>370,978</u>	<u>408,035</u>	<u>(37,057)</u>
Total charges to appropriations	<u>528,065</u>	<u>370,978</u>	<u>408,035</u>	<u>(37,057)</u>
<b>Fund Balance - End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,766</u>	<u>\$ 17,766</u>

# City of Hastings, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Nonmajor Special Revenue Funds				
	Major	Local	Police Training and Drug Awareness	Nonexpendable Trust Fund	Total Nonmajor Governmental Funds
	Streets	Streets			
<b>Assets</b>					
Cash and investments	\$ 276,661	\$ 80,424	\$ 4,349	\$ 107,573	\$ 469,007
Receivables - Net	63,920	54,576	-	-	118,496
Restricted assets	-	-	-	319,005	319,005
Total assets	<u>\$ 340,581</u>	<u>\$ 135,000</u>	<u>\$ 4,349</u>	<u>\$ 426,578</u>	<u>\$ 906,508</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 101,624	\$ 88,829	\$ 31	\$ -	\$ 190,484
Due to other funds	-	-	-	107,573	107,573
Deferred revenue	-	28,405	-	-	28,405
Total liabilities	101,624	117,234	31	107,573	326,462
<b>Fund Balances</b>					
Reserved - Charitable trust	-	-	-	319,005	319,005
Unreserved	238,957	17,766	4,318	-	261,041
Total fund balances	238,957	17,766	4,318	319,005	580,046
Total liabilities and fund balances	<u>\$ 340,581</u>	<u>\$ 135,000</u>	<u>\$ 4,349</u>	<u>\$ 426,578</u>	<u>\$ 906,508</u>

# City of Hastings, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2004

	Nonmajor Special Revenue Funds				
			Police Training and Drug Awareness	Nonexpendable Trust Fund	Total Nonmajor Governmental Funds
	Major Streets	Local Streets			
<b>Revenue</b>					
State sources	\$ 376,524	\$ 153,989	\$ 3,209	\$ -	\$ 533,722
Special assessments	-	17,765	-	-	17,765
Other	22	22,711	1,296	19,344	43,373
Total revenue	376,546	194,465	4,505	19,344	594,860
<b>Expenditures</b>					
Current:					
Construction	43,618	-	-	-	43,618
Maintenance	374,026	408,035	-	-	782,061
Police training	-	-	7,878	-	7,878
Distribution to library	-	-	-	19,344	19,344
Total expenditures	417,644	408,035	7,878	19,344	852,901
<b>Excess of Revenue Over (Under)</b>					
Expenditures	(41,098)	(213,570)	(3,373)	-	(258,041)
<b>Other Financing Sources</b>					
Transfers in	-	183,779	4,550	-	188,329
<b>Net Change in Fund Balances</b>	(41,098)	(29,791)	1,177	-	(69,712)
<b>Fund Balances - Beginning of year</b>	280,055	47,557	3,141	319,005	649,758
<b>Fund Balances - End of year</b>	<u>\$ 238,957</u>	<u>\$ 17,766</u>	<u>\$ 4,318</u>	<u>\$ 319,005</u>	<u>\$ 580,046</u>

# City of Hastings, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2004

	Administrative Services Fund	Equipment Fund	Totals
<b>Assets</b>			
Current assets:			
Cash and investments	\$ -	\$ 455,702	\$ 455,702
Due from other governmental units	-	2,393	2,393
Due from other funds	-	-	-
Prepaid costs and other assets	65,217	-	65,217
Total current assets	65,217	458,095	523,312
Noncurrent assets - Capital assets	1,495,238	1,084,441	2,579,679
Total assets	1,560,455	1,542,536	3,102,991
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	41,263	9,521	50,784
Accrued and other liabilities	13,932	401	14,333
Due to other funds	43,710	-	43,710
Current portion of long-term debt	70,000	-	70,000
Total current liabilities	168,905	9,922	178,827
Noncurrent liabilities:			
Provision for compensated absences	133,986	6,476	140,462
Long-term advance from other funds	17,564	426,855	444,419
Long-term debt - Net of current portion	740,000	-	740,000
Total liabilities	1,060,455	443,253	1,503,708
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	667,674	657,586	1,325,260
Unrestricted	(167,674)	441,697	274,023
Total net assets	<u>\$ 500,000</u>	<u>\$ 1,099,283</u>	<u>\$ 1,599,283</u>



# City of Hastings, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets Internal Service Funds Year Ended June 30, 2004

	Administrative Services Fund	Equipment Fund	Totals
<b>Operating Revenue</b>			
Charges for services	\$ 1,323,646	\$ 431,813	\$ 1,755,459
<b>Operating Expenses</b>			
Personnel services	899,180	67,276	966,456
Contractual and professional services	143,210	-	143,210
Supplies and chemicals	34,417	81,277	115,694
Heat, light, and power	35,300	18,562	53,862
Insurance	38,539	16,452	54,991
Equipment rental	13,461	4,529	17,990
Maintenance	21,313	59,927	81,240
Miscellaneous	15,945	1,576	17,521
Administrative services	-	29,580	29,580
Depreciation	79,954	174,409	254,363
Total operating expenses	<u>1,281,319</u>	<u>453,588</u>	<u>1,734,907</u>
<b>Operating Income (Loss)</b>	42,327	(21,775)	20,552
<b>Nonoperating Income (Loss)</b>			
Investment income	-	5,526	5,526
Interest expense	<u>(42,327)</u>	<u>(15,122)</u>	<u>(57,449)</u>
Total nonoperating income (loss)	<u>(42,327)</u>	<u>(9,596)</u>	<u>(51,923)</u>
<b>Change in Net Assets</b>	-	(31,371)	(31,371)
<b>Net Assets - Beginning of year</b>	<u>500,000</u>	<u>1,130,654</u>	<u>1,630,654</u>
<b>Net Assets - End of year</b>	<u><u>\$ 500,000</u></u>	<u><u>\$ 1,099,283</u></u>	<u><u>\$ 1,599,283</u></u>

# City of Hastings, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2004

	Administrative Services Fund	Equipment Fund	Totals
<b>Cash Flows From Operating Activities</b>			
Receipts from other funds	\$ 1,323,646	\$ 431,681	\$ 1,755,327
Payments to suppliers	(277,371)	(183,048)	(460,419)
Payments to employees	(842,550)	(65,677)	(908,227)
Internal activity - Payments to other funds	(72,435)	(34,109)	(106,544)
Net cash provided by operating activities	131,290	148,847	280,137
<b>Cash Flows From Noncapital Financing Activities</b>			
Operating transfers from other funds			-
Loan repayments to other funds	(5,735)	(62,544)	(68,279)
Net cash used in non capital financing activities	(5,735)	(62,544)	(68,279)
<b>Cash Flows From Capital and Related Financing Activities</b>			
Principal and interest paid on long-term debt	(107,327)	(15,122)	(122,449)
Purchase of capital assets	(18,228)	(4,450)	(22,678)
Net cash used in capital and related financing activities	(125,555)	(19,572)	(145,127)
<b>Cash Flows From Investing Activities</b>			
Interest received on investments	-	5,526	5,526
<b>Net Increase in Cash and Cash Equivalents</b>	-	72,257	72,257
<b>Cash and Cash Equivalents - July 1, 2003</b>	-	383,445	383,445
<b>Cash and Cash Equivalents - June 30, 2004</b>	<u>\$ -</u>	<u>\$ 455,702</u>	<u>\$ 455,702</u>
Reconciliation of operating income (loss) to net cash from operating activities:			
Operating income (loss)	\$ 42,327	\$ (21,775)	\$ 20,552
Adjustments to reconcile operating income (loss) to net cash from operating activities			
Depreciation	79,954	174,409	254,363
Changes in assets and liabilities:			
Due from other governmental units	-	(132)	(132)
Due from other funds	-	-	-
Prepaid expenses and other assets	5,450	-	5,450
Accounts payable	5,903	(5,254)	649
Due to other funds	(58,974)	-	(58,974)
Accrued and other liabilities	2,384	277	2,661
Provision for compensated absences	54,246	1,322	55,568
Net cash provided by operating activities	<u>\$ 131,290</u>	<u>\$ 148,847</u>	<u>\$ 280,137</u>

# **City of Hastings, Michigan**

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**Report to the City Council**

**June 30, 2004**

# **City of Hastings, Michigan**

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## **Report to the City Council**

**June 30, 2004**



To the Honorable Mayor and  
Members of the City Council  
City of Hastings, Michigan

We recently completed our audit of the June 30, 2004 financial statements of the City of Hastings, Michigan. In addition to our report on the financial statements, we would like to present the matters outlined in this report as potential opportunities for improvements to the internal controls and efficiency of your Organization. These recommendations and informational comments are presented as outlined below:

<u>Title</u>	<u>Page</u>
<b>Recommendations</b>	
Bank Reconciliations/Journal Entries	2
Certificates of Deposit	2
Transfer of Funds	2
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We appreciate the opportunity to be of service to the City of Hastings. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

*Plante & Moran, PLLC*

September 10, 2004

## **Recommendations**

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# **City of Hastings, Michigan**

## **Recommendations**

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### **Bank Reconciliations / Journal Entries**

The review of bank reconciliations and journal entries is not being performed by someone independent of the accounting function. In addition, supporting documentation was not maintained for all the journal entries that were made in the current year.

We recommend that the City review the responsibilities of its accounting staff to provide enhanced procedures over the bank reconciliation and journal entry process. The City could consider having the Treasurer receive the unopened bank statements directly from the bank and review the canceled checks and other transactions for any unusual items. In addition, a periodic review of bank reconciliations and journal entries by the Treasurer would strengthen the internal controls.

### **Certificates of Deposit**

There was no approval process or supporting documentation for the rollover of Certificates of Deposit held by the City. The supporting documentation maintained for the rollover was a copy of the new Certificate of Deposit.

We recommend that the City review the process of rolling forward the Certificates of Deposit that will mature during the year to provide better control over the process. The City could consider having the Treasurer or City Manager give written authorization to the bank to roll forward the Certificate of Deposit into a new CD, verifying the maturity date and interest rate. A review of the new Certificate of Deposit by the Treasurer or City Manager would help to reinforce the controls over this process.

### **Transfer of Funds**

We noted that there are five people authorized to transfer funds from one bank account to another, but only one person is required for approval of each transfer. Also, there is no dollar limitation on the transfer of funds.

We recommend that the City Council amend the transfer of funds procedures to include a second authorization and impose a dollar limitation on the transfer of funds. This would help to strengthen the internal controls in this area.

# **City of Hastings, Michigan**

## **Recommendations**

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### **Year-End Closing Entries**

During the completion of the audit for the current year, it was noted that certain year-end closing entries had not been completed. Although the amounts of the adjustments were not significant, it is important to review these items and make necessary adjustments. The following items were noted in the current year:

- The Water Supply and Sewage Disposal System Revenue Bonds include certain debt covenants that the City must review and adhere to. The covenants relate to cash amounts that must be reserved until the bond's maturity. Although these debt covenants are reviewed, it is important to transfer the money to the appropriate accounts. This will ensure that money is available to meet all compliance requirements.
- At June 30, 2004, both the Administrative Services and the Business Incubator Funds initially had deficit unreserved retained earnings balances. These amounts were eliminated through operating transfers subsequent to year-end. These transfers should be budgeted for and approved through the budget process and recorded during the fiscal year.
- The charitable trust for the Library is recorded as part of the City's financial statements as a Nonexpendable Trust Fund. This Trust is considered to be nonexpendable, because the original donation amount is required to be maintained, while the earnings are available for Library use. The City did not record activity in this fund during the current year. The activity of the fund should be reviewed on a quarterly basis to reflect interest income or loss. The interest earnings or loss for the fiscal year should be transferred to the Library Fund at the end of the year. This will allow for easy identification of money available for the Library Fund and will also help to ensure that the original gift, the principal, is not used.
- The unbilled utility receivable balance has not been adjusted to reflect the current unbilled amount.
- Accrued interest payable on the bonds has not been adjusted to reflect actual interest due as of June 30, 2004.

It is important for these accounts and amounts to be reviewed at the close of the fiscal year, and adjustments made to these accounts as necessary.



## **Other Information**

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# City of Hastings, Michigan

## Other Information

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### Retiree Health Care Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government wide financial statements*, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

# **City of Hastings, Michigan**

## **Other Information**

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### **Computer Systems**

Over the years the City of Hastings has made major investments in computer systems and applications. Presently all accounting, water and sewer billing, and many other areas are fully computerized. A walk through of each of these departments will readily reveal the high utilization of computers increasing the level of employee productivity and service to citizens of the City of Hastings. Due to the fast rate of technology change and in many instances falling prices, it is beneficial to review regularly whether your present computer equipment and utilization is still current for these circumstances. To ensure continued optimal utilization of affordable available technology, we recommend that during the current year a formal review be performed to determine which computer systems are likely to warrant updating or replacement in the near future. Once this is done, the long-term capital outlay plan can be modified accordingly.

### **Phone System**

It may be beneficial to conduct a review of the City's telecommunications and data network infrastructure in order to assess such factors as:

- Age and viability of existing systems
- Appropriateness of design
- Opportunities for cost reduction
- Opportunities for improvement in efficiency
- Opportunities for improving security of network services

A high level review would focus on the telecommunications infrastructure to include the telephone and voice mail system, telephone lines/services and the cable infrastructure within the building(s) and between buildings. In tandem, a high level review of the data infrastructure (Local Area Network/Wide Area Network) would include the switches and routers supporting information flow within the City. Based on the close association of voice and data network equipment and the cabling and network services used, we would recommend that both areas be reviewed together to provide coordinated input as to how best to improve communications performance.

## **City of Hastings, Michigan**

### **Other Information**

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#### **Personal Property Tax**

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

## **Legislative Matters**

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# City of Hastings, Michigan

## Legislative Matters

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### State Shared Revenue

State shared revenue accounts for approximately 13 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages, and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Constitutional</u>	<u>Statutory</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$442,176	\$462,104	\$904,280	-
2001	\$458,138	\$499,939	\$958,077	N/A
2002	\$462,836	\$454,705	\$917,541	N/A
2003	\$470,841	\$395,247	\$866,088	4.4%
2004	\$465,728	\$312,671	\$778,399	16.2%

We will continue to update the City as developments occur.

# City of Hastings, Michigan

## Legislative Matters

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### Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation.

Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

# **City of Hastings, Michigan**

## **Legislative Matters**

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### **Property Assesment Cap (Continued)**

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 16.0303 mills even though City Charter would allow the City to levy 16.2000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

### **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end June 30, 2004 and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

### **Transportation Matters**

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement, or reconstruction of existing bridges. It is estimated that over the next 10 years approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well as seven, five-member regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.



# **City of Hastings, Michigan**

## **Legislative Matters**

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### **Property Tax Matters**

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as “homestead” property. The bill also proposes to not allow the taxable value of property to “uncap” when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

During 2004, the Legislature amended the Renaissance Zone Act allowing the Michigan Strategic Fund to designate up to 20 tool and die renaissance recovery zones across the State. To qualify for a recovery zone designation, a parcel of property must be leased or owned by a qualified tool and die business and used primarily for tool and die business operations. The taxes that companies located in a recovery zone would not pay include: single business tax, 6-mill state education tax, local personal property tax, and local income tax.

### **Refuse Disposal**

SB 721 was introduced which would assess a \$3 per ton tipping fee at landfills which could increase the cost of refuse disposal for local governments. The monies generated from this legislation are intended to be used by the State for recycling.

### **Health Care Costs**

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State’s prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.